

CITY OF SPRAGUE
Lincoln County, Washington
January 1, 1994 Through December 31, 1995

Schedule Of Findings

1. The City Should Comply With The Laws Governing Expenditures Of The Street Fund

We noted that a transfer was made from the Street Fund to the Sewer Construction Fund for \$12,000 to provide funding for cost overruns on the sewer construction project. The source of the funds transferred was a state Transportation Improvement Board (TIB) grant.

The transfer was processed because the engineering firm had allowed the sewer construction costs to overrun the available grants and loans by approximately \$12,000. The same firm had also been retained to supervise a street improvement project. In order to compensate for the overruns in the sewer project, the engineer agreed to forgo \$12,000 of engineering services charges for the street project. The city submitted a claim to the Washington Department of Transportation for \$12,000 of engineering services even though the \$12,000 in street engineering services were not performed.

In a separate transaction, the city also inappropriately transferred \$3,000 from the Arterial Street Fund to the Sewer Fund to purchase a vehicle. There were no provisions to repay to the Arterial Street Fund for this amount.

RCW 47.24.040 states in part:

All funds accruing to the credit of cities and towns . . . shall be placed in a fund to be designated as "city street fund" and disbursed by the legislative authority, **as agents of the state**, (Emphasis ours) for salaries and wages, material supplies . . . engineering or any other proper highway or street purpose in connection with construction, alteration or repair, improvement or maintenance of any city street . . . Such expenditure may be made independently or in conjunction with federal, state or any county funds.

RCW 47.08.100 states in part:

Illegal use of county or city road funds) procedure to correct. The department is authorized . . . to investigate expenditures from the county road or city street fund; and if it determines that unauthorized, illegal or wrongful expenditures have been made from the fund, it is authorized to proceed as follows . . . and if the city street fund is involved it shall notify the city council . . . and the mayor and the city treasurer of the city or town of its determination . . . and it may notify the officials that if the wrong is not stopped, remedied, adjusted or restitution is made to its satisfaction within a specified period fixed by

it, it will direct withholding further payments . . . from the motor vehicle fund.

RCW 47.08.110 states in part:

It shall be unlawful and a misdemeanor . . . to divert or use, authorize, permit or participate in the diversion or use any moneys . . . in the street fund for any other purpose or any other manner than authorized by law.

City officials were not aware that it was inappropriate to divert Street Fund moneys to pay for other city projects.

We recommend that city officials comply with the state statute for the use of Street Fund moneys.

Auditee's Response

The city will comply with state statutes regarding the use of street fund monies. As pertains to the \$3,000 transferred from the Arterial Street Fund to the Sewer Fund to purchase a vehicle, the money was transferred from the Arterial Street Fund on 06/30/95 and transferred back from the Sewer Fund to the Arterial Street Fund on 08/31/95. The city will reimburse the Arterial Street Fund for interest on this loan.

2. The City Should Comply With The Requirement To Indicate Governing Body Approval For Payment Of Payroll And Claims Vouchers

Our review indicated that the city council did not approve the payment of all claims and payroll warrants in a regularly scheduled public meeting. There was no indication in the body of the minutes that expenditures in the amount of \$3,213,977 for sewer construction progress payments were approved.

The approval of the warrants gives the authority to disburse the funds and being recorded in the minutes gives evidence that the council is reviewing and approving the claims and payroll disbursement.

The council members did not know that, even though they had authorized a city officer to issue the warrants, it did not relieve the requirement that the legislative body must review and approve the claims paid at its next regularly scheduled public meeting.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 1.3.3.25 states:

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

The following voucher/warrants are approved for payment:

| | | | | |
|---------------------------|-----|---------|-----|-------|
| (Funds) | | | | Total |
| Voucher (warrant numbers: | ___ | through | ___ | \$___ |
| Payroll warrant numbers: | ___ | through | ___ | \$___ |

If the legislative body authorizes the procedure, cities, counties and districts may issue warrants before the legislative body approves claims. To do this the municipality must

enact the policies and procedures required by RCW 42.24.180.

When the voucher and payroll approval procedures are not followed, the assets of the city may be put at risk for inappropriate spending.

We recommend that the city put procedures in place to ensure that all vouchers and payroll warrants are approved for payment by the governing body and that the minutes record this action.

Auditee's Response

The city will ensure that all vouchers and payroll warrants be approved by the mayor and council and recorded in the minutes.

3. The City Should Comply With Budget Laws And Regulations

During our review of budgets, we identified procedural weaknesses concerning the timeliness of amendments and extensions to budget appropriations. In several instances, the budget document contained different amounts than were documented in the financial statements. Additionally, the Sewer Fund budget was overspent by \$16,448 for 1995.

The cause of these errors and absence of extensions is the lack of management oversight as it relates to the budgeted appropriations against actual expenditures on an ongoing basis.

RCW 35.33.121 states in part:

The expenditures classified and itemized in the final budget shall constitute the city's or town's appropriation for the ensuing fiscal year . . . the expenditures of the city . . . or the incurring of liabilities on behalf of the city shall be limited to the total amount appropriated in each fund for the current fiscal year.

RCW 35.33.141 states in part:

. . . the clerk shall submit to the city's or town's legislative body . . . a report showing the expenditures and liabilities against each budget appropriation incurred for the whole of the current fiscal year

The effect of the procedural weaknesses is to circumvent the budgetary process which is to effectively manage the resources of the city. By failing to amend budgets in a timely manner, officials risk overexpending appropriations which is a direct violation of the above RCWs.

We recommend the city develop and implement procedures to ensure that all budget amendments and extensions be made in a timely manner.

Auditee's Response

The city will watch financial reports carefully and amend any portions of the budget as necessary. The clerk will give the council a budget report on a regular basis.

Auditor's Concluding Remarks

We would like to thank the city for their timely response to our findings. We will review these areas in our next regularly scheduled audit.